

VZCZCXRO5190  
RR RUEHGH  
DE RUEHIN #1086 1350737  
ZNR UUUUU ZZH  
R 150737Z MAY 07  
FM AIT TAIPEI  
TO RUEHC/SECSTATE WASHDC 5249  
RUEATRS/DEPT OF TREASURY WASHDC  
INFO RUCPDOG/USDOC WASHDC  
RUEHBK/AMEMBASSY BANGKOK 3688  
RUEHBJ/AMEMBASSY BEIJING 6769  
RUEHUL/AMEMBASSY SEOUL 8636  
RUEHGP/AMEMBASSY SINGAPORE 6894  
RUEHKO/AMEMBASSY TOKYO 8757  
RUEHML/AMEMBASSY MANILA 0053  
RUEHJA/AMEMBASSY JAKARTA 4076  
RUEHKL/AMEMBASSY KUALA LUMPUR 3734  
RUEHHI/AMEMBASSY HANOI 3310  
RUEHBY/AMEMBASSY CANBERRA 4511  
RUEHWL/AMEMBASSY WELLINGTON 1775  
RUEHHK/AMCONSUL HONG KONG 8011  
RUEHGH/AMCONSUL SHANGHAI 1068  
RUEHGZ/AMCONSUL GUANGZHOU 0243

UNCLAS TAIPEI 001086

SIPDIS

SIPDIS

STATE PLEASE PASS USTR  
STATE FOR EAP/RSP/TC, EAP/EP  
USTR FOR ALTBACH and Stratford  
USDOC FOR 3132/USFCS/OIO/EAP/WZARIT  
TREASURY FOR OASIA/LMOGHTADER  
TREASURY ALSO PASS TO FEDERAL RESERVE/BOARD OF  
GOVERNORS, AND SAN FRANCISCO FRB/TERESA CURRAN AND NY FRB MARIA  
BOLIS

E.O. 12958: N/A  
TAGS: [EINV](#) [EFIN](#) [ECON](#) [PINR](#) [TW](#)  
SUBJECT: Taiwan Insurers Can Invest More Offshore

Ref: (A) 06 TAIPEI 2388, (B) 06 TAIPEI 2695

SUMMARY

-----

¶1. Taiwan's legislature has relaxed restrictions on insurance firms' offshore investments primarily to increase their flagging profits; the measure does little to address Taiwan's excess liquidity, a root cause of the insurance firms' woes. END SUMMARY.

Agreement on Insurance Amendment

-----

¶2. On May 3, legislators reached agreement on a bill amending the Insurance Law to raise insurance companies' offshore investment ceiling from 35% to 45% of total insurance funds (equity plus policy reserves). The bill also proposes to increase the limit on an insurance firm's total hedge-based financial derivative contracts from 40% of the firm's net worth to 40% of its total investments, but retains the provision that not more than half of the limit can be kept in offshore contracts.

Investment Limit, Profitability

-----

¶3. The bill was designed to permit insurance firms to pursue higher yields overseas so that they can meet higher yield commitments made to policy buyers in the past, when Taiwan's interest rates were higher. Interest rates in the United States are currently about three percentage points higher than in Taiwan. The broadening of the domestic-overseas interest rate differential has prompted Taiwan's insurance sector to increase offshore investment from 16% to 30% of total insurance funds over the past five years. According to the Insurance Bureau (IB), eleven of Taiwan's 52 insurance firms are near the 35% ceiling limit on offshore investment. Recently,

Nan Shan Life, a subsidiary of the U.S. American Insurance Group (AIG), was fined NT\$1.8 million (US\$54,500) for exceeding the 35% limit.

¶4. Cathay and Shin Kong, two of Taiwan's largest life insurance firms, estimate that increasing their offshore investments from 35% to 45% can increase their annual profits by 20-30%.

Excess Liquidity to Remain  
-----

¶5. This bill will help insurers cope with the low domestic interest rate environment they have faced over the past ten years (ref A). However, the legislation does not address Taiwan's excess liquidity problem (ref B), which is a major cause of the current low interest rates and weak currency.

¶6. A CBC Taiwan (the central bank) contact recently told AIT/T that excess liquidity in Taiwan is so serious that Taiwan's money market interest rates barely responded to CBC's recent increase in benchmark rates. Taiwan's excessive liquidity is estimated at many times the insurance sector's maximum possible offshore investment under the new legislation.

YOUNG